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NSC BRIEFING

27 October 1954

SOVIET-YUGOSLAV RELATIONS

- I. Sudden Soviet increase in tempo of its efforts improve relations with Yugoslavia. Effort began soon after Stalin's death, but appeared casual and without much substance.
 - A. It started when Soviet Union appointed ambassador to Belgrade in June 1953.
 - B. Since then some of Satellites established full diplomatic relations, and concluded modest trade agreements.
 - C. Border incidents (at high level until mid-53) virtually ceased by 54.
 - D. Critical Orbit propaganda about Yugoslavia gradually diminished.
- II. In last weeks, Moscow's approach to relations with Yugoslavia has shown surprising new aspects.

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- A. In mid-September Moscow propaganda started quoting Yugoslav press and leaders; quotes carefully selected to give impression of Yugoslav support for Soviet policy, and carried without comment.
- B. Since then the anti-Tito clandestine Radio Free Yugoslavia has gone off the air, and jamming of Yugoslav Russian broadcasts has stopped. Also anti-Tito books have been removed from bookshelves in Poland.
- C. Last week Moscow celebrated 10th anniversary liberation of Belgrade, with tributes to role of Yugoslav partisans--as well as Soviet army. Since the 1948 break, the Soviet Union had claimed full credit for the liberation.
- D. A short term and rather small (\$5 million) trade agreement was signed between Moscow and Belgrade trade agencies on 1 October. Yugoslavia has agreed

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to Soviet suggestion for talks in Moscow on a one-year governmental trade agreement. (Orbit trade is only 5% of Yugoslavia's trade now, the American embassy in Belgrade thinks it could eventually exceed prewar average - 25%).

- E. Vyshinsky's letter to UN Security Council "taking cognizance" of the Trieste settlement in part reflects Soviet desire not to jeopardize improving relations with Belgrade.

III. Belgrade has not rejected these Orbit moves, saying it has always been willing to normalize relations on an equal basis.

- A. It has agreed to negotiate for reciprocal distribution of Soviet and Yugoslav films, which would be the first widespread distribution of each other's cultural propaganda in the last six years.
- B. It has now agreed to allow Soviet commercial planes to resume overflights to Albania.

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IV. In public and private statements, Tito and other Yugoslav leaders have stated that cooperation with the West should not bar improved relations with the East. This is in line with their view stated since early summer 1954 that "a certain equilibrium of power had been created whereby the cold war--previously in danger of developing into an open conflict--became an armed peace, where East-West conferences could search for a way out of the situation."

- A. Tito has explicitly stated (16 October) that he will not "go back to Moscow." *He says such talk is almost nonsense.*
- B. The Yugoslavs will continue to cooperate with the West for defense against aggression.
- C. They approve of unification efforts for Europe, and even properly controlled rearmament Western Germany. Simultaneous with these efforts, however, Yugoslavs believe all efforts should also be made to negotiate with the Russians, whose policy of relaxing tension in Europe they now characterize as "permanent."

Tito told Stassen that the Balkan part allies should develop cooperation in all fields with the Brussels part powers, but that he could not be more precise until character of latter became clear.

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- D. Take stand that, as socialist state, cannot join any organization (such as NATO) which, in their view, has primarily an anti-Communist basis. (See also annex 1)
- V. Direct propaganda treatment of the USSR by Yugoslavia continues to improve, now being neither antagonistic nor friendly.
- A. Recent Yugoslav speeches celebrating the anniversary of the liberation of Belgrade still gave almost all of the share of credit to their own forces, and reminded the listeners of "quarrels and disagreements" between Soviet and Yugoslav commanders.
- B. Although a ceremony was held at a cemetery for Soviet and Yugoslav soldiers, it was reported to be a "pretty dismal" affair.
- VI. Increased tempo of Soviet activity stems from Kremlin reevaluation of its policy toward Yugoslavia and appears aimed mainly at blocking a further Yugoslav shift to the West.

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- A. Moscow must realize that its normalization efforts in last year have yielded little, and it apparently considers new moves are needed to counterbalance growing Yugoslav ties with West, which have been strengthened by Balkan military alliance and Trieste settlement.
- B. While such gestures fit general pattern conciliatory Soviet policy throughout Europe, Kremlin may also think them especially productive when applied to Communist Yugoslavia for several reasons: As test of "deviationist" regime's responses; as preparation for any future offers; as easy means inflaming Western suspicions of Yugoslavia.
- C. Moscow may plan eventually to offer Tito some real bait for Eastern orientation, but no signs yet of a major serious offer--which it probably expects would be rejected.

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D. Moscow would probably first continue to improve atmosphere.

VII. Yugoslavia's own self-interest would appear to preclude a return to the Eastern camp.

A. Tito's present position has given him practically a Western guarantee of national security as well as military and economic aid, without an infringement on Yugoslavia's independence or internal affairs. Infringement by the USSR was a major cause of the 1948 break.

B. The Yugoslavs see in recent Soviet moves (like the withdrawal from satellite joint companies and the agreement with the Chinese on Port Arthur) an indication that USSR recognizes it must interfere less in internal affairs of other states.

C. Tito and his leaders still, however, appear to retain enough distrust of the USSR to discount any Soviet offers, even one that might go so far

as to promise a relationship as independent as
that of Peiping to Moscow.

- D. The Tito regime nonetheless may believe that improved relations with the Soviet bloc can be used to better its bargaining position with the West.

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Yugoslavia's Internal Policy

The regime is still trying to feel its way in many areas. Yugoslav leaders consider themselves the correct interpreters of Marxism, but as reality has proved some of their failures, they have appeared to realize more and more that pragmatic approaches to some of their problems are needed, and hence have experimented.

Industrially, their decentralization program has been partly carried out. While the regime retains ultimate control, a very large part of the decisions are carried out locally. This has raised some problems. In some cases profit, investment, etc. of local industries have been directed too much for the local good rather than the whole of Yugoslavia. Belgrade has played with various methods to solve these problems, the most recent being the setting up of a regional administration called the "commune," which is supposed to be large enough and of varied enough composition, to oversee the local

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operations for the social good.

The regime's other main problem has been to get production from the countryside. Practically all the collectives except some of the very successful, have been disbanded. There is much emphasis on improving the techniques of agriculture -- fertilizers, breeding, etc., but there are no signs yet of any new approach to socialize the countryside. However, the government's ultimate aim is to obtain a situation whereby it can control and increase the production of the peasant. It has shown interest in some of the European and Scandinavian cooperatives, and may try some of their techniques.

Yugoslav leaders will probably continue their present course of putting main emphasis on agricultural production for the next few years, before starting in on any real socialization program. It is doubtful that they have any interest in going back to a harsh collectivization program -- since they show signs of having learned its impracticality.

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The greatest current problem facing the regime is its adverse balance of trade, now highlighted by a serious wheat shortage. Yugoslav figures on the wheat shortage have consistently grown more pessimistic. They now claim that their wheat crop this year will total only about 1,500,000 metric tons compared to 2,500,000 in 1953. Although their figures may be exaggerated, it is pretty generally agreed that the Yugoslavs will need to import about 1,000,000 tons. So far, the US has granted them 400,000 tons, all for delivery before the start of 1955, and have obtained Canadian credit for 100,000 tons.

While they may be able to obtain more on credit elsewhere, this will merely make more serious their debt repayment problem, already a serious one. They have been carrying on bilateral negotiations to reschedule their debts with some countries, and have achieved fair success with Britain and West Germany. However, it is still hoped that a creditors' debt conference can be held to rationalize the whole Yugoslav debt situation.

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Even without the debt repayments, Yugoslav exports have not yet reached the point where they will balance payments. The overall gap this year is somewhere in the neighborhood of \$100,000,000. Tripartite aid so far contemplated, comes to about \$45,000,000. (US - \$35,000,000, UK - \$6,000,000, France - \$4,000,000)

As spring has approached in practically each of the last several years, Belgrade has found itself short of funds. In each case some additional US aid has been obtained, some capital imports have been held off (last year Belgrade held off on the buying of commercial Convair airplanes in the US on which it had already put a large downpayment), and some raw material imports have been slowed down, which has affected the operating rate of the Yugoslav industry.

Although some of the largest Yugoslav investments are now starting to get into real production, and are helping the export picture, the earliest it has been estimated the Yugoslavia could balance its payments is fiscal 1956, and this is

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probably an overly optimistic estimate. Part of the problem has stemmed from past over ambitious Yugoslav schemes, part from an unwillingness to really cut back to a cautious level, and part from droughts, which have been occurring every other year.

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Annex I (Add Foreign Policy)

Tito told Stassen that while Soviet foreign policy has changed because of its necessity of obtaining a peaceful situation in which to initiate internal Soviet changes, there was neither sufficient information, nor was it wise to predict how far the change in Soviet foreign policy would go. Tito said that there was no danger of Soviet aggression at present, but that the danger would return if the West let down its guard. He said Yugoslavia had no intention of doing so and MILITARY EXPENDITURES WOULD NOT BE CUT.

While the following cannot be stated as an absolute certainty, it appears probable that:

1. Tito will continue to cooperate with the West on defense planning, rearmament, etc.
2. He will also cooperate with some of the political and economic unification schemes in Europe. Part of the past strong criticisms of EDC, etc., may have come from Yugoslav

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pique at obtaining almost no response to their own offer to associate in some form with EDC last spring.

3. He will, however, continue to emphasize his independence, and probably the further he becomes integrated in Western schemes, the louder he will talk about such.

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